

ORIGINAL



LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

LAWRENCE M. REIFURTH
DIRECTOR

CATHERINE P. AWAKUNI
EXECUTIVE DIRECTOR

STATE OF HAWAII
DIVISION OF CONSUMER ADVOCACY
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
335 MERCHANT STREET, ROOM 328
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: 588-2800
Fax Number: 588-2780
www.hawaii.gov/dcca/dca

August 7, 2008

FILED
2008 AUG - 7 P 3:59
PUBLIC UTILITIES
COMMISSION

The Honorable Chairman and Members of
the Hawai'i Public Utilities Commission
Kekuanaoa Building
465 South King Street, 1st Floor
Honolulu, Hawai'i 96813

Dear Commissioners:

RE: ⁰¹¹⁵ Docket No. 2008-~~0046~~ - Temporary Rate Increase for Moloka'i Public
Utilities, Inc., Wai'ola o Moloka'i, Inc. and Mosco, Inc. ("Moloka'i Utilities").

On June 23, 2008, the Consumer Advocate filed a Statement of Position indicating that it would not oppose the temporary rate increase amounts set forth in the Commission's June 16, 2008 Order in the above docketed matter. By letter dated June 25, 2008, Peter Nicholas, Director of the three utilities that are the subject of the instant docket informed the Commission that the amounts set forth by the Commission in its June 16, 2008 Order was insufficient because the amounts did not consider, among other things: (a) the current financial results of each utility and (b) the expenses that would be incurred if Mosco were operated as a separate entity. As a result, Mr. Nicholas proposed alternate rates for the Commission's consideration. In further support of the proposed alternate rates, Mr. Nicholas represented that additional expenses must be considered for: (1) the resources that would be required to pursue the permit to draw water from Well 17 and the use of the Moloka'i Irrigation System to transmit the water drawn from Well 17 to Moloka'i Public Utility's customers; (2) decreases in revenues resulting from a cutback in water use due to the increase in the charges for water use; and (3) the funds that may be required to repair the system should there be an unexpected system breakdown.

Presently, the Consumer Advocate has not been provided with sufficient information to assess the reasonableness of the rates proposed by Mr. Nicholas. Although schedules were provided with Mr. Nicholas's June 25, 2008 letter, the underlying support that is submitted by a utility, either with the application or in response to discovery posed by the Consumer Advocate, to demonstrate the reasonableness of the underlying computations for the proposed rates was not provided. Subsequently, on July 7, 2008, additional information was provided at the request of the Commission in the informal July 3, 2008 status conference. Unfortunately, the information was not of the quality that is required to perform

an independent review of the reasonableness of the projections. In this regard, the Consumer Advocate is unable to determine whether the expenses upon which the Moloka'i Utilities' proposed rates are based reflect normalized ongoing expenses, or whether the rates will generate sufficient revenues to cover the projected expenses as proposed by Mr. Nicholas.

Furthermore, it must be recognized that all business entities experience ongoing changes in the level of sales and expenses that are incurred. As a result, ratemaking is not about providing dollar-for-dollar recovery of the expenses incurred by a public utility or guaranteeing the utility a given level of net income. Rather, ratemaking is about setting rates that are intended to provide an opportunity to recover a "reasonable," "normalized" level of expenses, and earn a return on investment.

The Consumer Advocate notes that the rate increase set forth in the Commission's June 16, 2008 Order is expected to remain in effect for a period of six months from the date of the Commission's decision and order. In addition, the purpose of the temporary rate increase is not to make the utilities whole by providing for dollar-for-dollar recovery of the expenses incurred, and would be incurred if any of the utilities were a "stand alone" entity. Rather the proposed rates are intended to merely provide additional financial resources to enable the utilities to minimize the losses that are currently being incurred and thus continue operations beyond August 31, 2008 for a limited time period. The Commission stated that it does not intend to subject the Moloka'i Utilities to the type of review conducted of rate adjustments proposed by other utilities. Instead, the intent of the proposed temporary rate increase is merely to provide additional time to negotiate the sale or transfer of the utility's operations. In this regard, the Consumer Advocate notes that the Department of Health of the State of Hawai'i has issued orders invoking its emergency powers compelling the County of Maui to prepare to take over the utility systems. Although the County of Maui may disagree with the Department of Health's ability to impose such an order, the rate structure of a municipal utility differs from that of an investor owned utility.

Given the above, the Consumer Advocate is unable to state an opinion on the revised rates proposed by Mr. Nicholas. Instead, the Consumer Advocate maintains the position set forth in its June 23, 2008 Statement of Position and, with the same reservations stated in such June 23, 2008 position statement, will not oppose the Commission authorizing the rates set forth in the Commission's June 16, 2008 Order to take effect on a temporary basis.

Sincerely,



Catherine P. Awakuni
Executive Director

CPA:tt

cc: P.A. Nicholas
Brian T. Moto, Esq./Jane E. Lovell, Esq.